

AR 71

DRAKE PACIFIC ENTERPRISES LTD.

360, 435 - 4th Avenue S.W.
Calgary, Alberta
T2P 3A8

Winspear Business Reference
University of Alberta
Edmonton Business Building
Edmonton, Alberta T6G 2R6

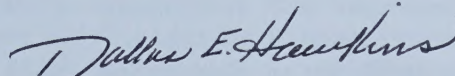
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS OF DRAKE PACIFIC ENTERPRISES LTD.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of holders of common shares of Drake Pacific Enterprises Ltd. (the "Corporation") will be held in the Cardium A Boardroom at The Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta, T2P 0L5, at 11:00 a.m., (Calgary time), on Tuesday, June 25, 1996, for the following purposes.

1. To receive the annual report of the board of directors to the shareholders and the audited financial statements of the Corporation for the fiscal year ended December 31, 1995.
2. To fix the board of directors of the Corporation at four (4) members.
3. To elect the board of directors for the ensuing year.
4. To appoint the auditor for the ensuing year and to authorize the board of directors to fix their remuneration.
5. To transact such other business as may be properly brought before the meeting.

DATED at the City of Calgary, in the Province of Alberta, this 15th day of May, 1996

BY ORDER OF THE BOARD OF DIRECTORS



Dallas E. Hawkins
President

IMPORTANT

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend and would like your shares represented, please complete the enclosed instrument of proxy and return it as soon as possible in the envelope provided for that purpose. All proxies, to be valid, must be deposited at the office of the Registrar and Transfer Agent of the Corporation, Montreal Trust Company of Canada, 6th Floor, Western Gas Tower, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, at least forty-eight (48) hours prior to the meeting or any adjournment thereof.

DRAKE PACIFIC ENTERPRISES LTD.

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T2P 3A8

MANAGEMENT INFORMATION CIRCULAR

PURPOSE OF SOLICITATION

This management information circular is furnished in connection with the solicitation of proxies by the management of Drake Pacific Enterprises Ltd., (the "Corporation"), for use at the annual general meeting of holders of common shares (the "Common Shares") of the Corporation, to be held on Tuesday, June 25, 1996, at the hour of 11:00 o'clock in the forenoon, (the "meeting") mountain daylight savings time or at any adjournment thereof for the purposes set out in the accompanying notice of meeting (the "Notice"). Although it is expected that the solicitation of proxies will be primarily by mail, proxies may also be solicited personally or by telephone, telegraph or personal interview by regular employees of the Corporation, at a nominal cost. In accordance with National Policy No. 41, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the Common Shares held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in so doing. All costs of any such solicitation will be borne by the Corporation.

VOTING OF PROXIES

All Common Shares represented at the meeting by properly executed proxies will be voted (including the voting on any ballot), and where a choice with respect to any matter to be acted upon has been specified in the instrument of proxy, the Common Shares represented by the proxy will be voted in accordance with such specification. **In the absence of any such specification, the management designees, if named as proxy, will vote in favour of the matters set out therein.**

The enclosed instrument of proxy confers discretionary authority upon the management designees, or other persons named as proxy, with respect to amendments to or variations of matters identified in the notice of meeting and any other matters which may properly come before the meeting. As of the date hereof, the Corporation is not aware of any amendments to, variations of or other matters which may come before the meeting. In the event that other matters come before the meeting, then the management designees intend to vote in accordance with the judgment of the management of the Corporation.

APPOINTMENT OF PROXY

A shareholder has the right to designate a person, (who need not be a shareholder of the Corporation), other than the management designees, Dallas E. Hawkins, President and a director of the Corporation, or in the place and stead of the foregoing, Michael J. Perkins, Secretary and a director of the Corporation, the true and lawful attorney of the Corporation, to attend and act for him at the meeting. Such right may be exercised by inserting in the blank space provided, the name of the person or persons to be designated and deleting therefrom, the names of the management designees or by completing another proper instrument of proxy and delivering same to the office of the Registrar and Transfer Agent of the Corporation, Montreal Trust Company of Canada, 6th Floor, Western Gas Tower, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, not later than forty-eight (48) hours prior to the meeting or any adjournment thereof. The Corporation may refuse to recognize any proxy received after such time.

REVOCATION OF PROXIES

A shareholder who has given a proxy may revoke it as to any matter upon which a vote has not already been cast pursuant to the authority conferred by the proxy. A proxy may be revoked by either executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the shareholder or by his authorized attorney in writing, or, if the shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized, and by depositing the proxy bearing a later date with the Registrar and Transfer Agent of the Corporation, Montreal Trust Company of Canada, at any time up to and including the last business day preceding the date of the meeting or any adjournment thereof at which the proxy is to be used or by depositing the revocation of proxy with the chairman of such meeting on the day of the meeting, or any adjournment thereof, or in any other matter permitted by law. In addition, a proxy may be revoked by the shareholder personally attending at the meeting and voting his shares.

ADVICE TO BENEFICIAL SHAREHOLDERS

Shareholders who do not hold their shares in their own name (referred to herein as "Beneficial Shareholders") are advised that only instruments of proxy from shareholders of record can be recognized and voted at the meeting. Beneficial Shareholders who complete and return a proxy must indicate thereon the person (usually a brokerage firm) who holds their shares as a registered shareholder. Every intermediary (brokerage firm) has its own mailing procedure, and provides its own return instructions, which should be carefully followed. The instrument of proxy supplied to Beneficial Shareholders is identical to that provided to registered shareholders, however, its purpose is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder.

All references to shareholders in this management information circular, the accompanying instrument of proxy and notice of meeting are to shareholders of record unless specifically stated otherwise.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation is authorized to issue an unlimited number of Common Shares of which, as at the date hereof, 4,507,323 of such Common Shares are issued and outstanding and are entitled to be voted at the meeting on the basis of one vote for each Common Share held. The Corporation is also authorized to issue an unlimited number of preferred shares, of which none are presently issued and outstanding.

Holders of Common Shares of record as at the close of business on May 15, 1996 are entitled to vote such Common Shares at the meeting on the basis of one vote for each Common Share held except to the extent that (i) such person transfers his or her shares after the close of business on the aforesaid record date; and (ii) such transferee, at least ten (10) days prior to the meeting, produces properly endorsed share certificates to the Secretary or Transfer Agent of the Corporation or otherwise establishes his or her ownership of the shares, in which case the transferee may vote those shares.

Paragraph 8.10 of By-law No. 1 of the Corporation provides that two persons present in person, being a shareholder entitled to vote thereat or a duly appointed proxy holder or representative for a shareholder so entitled and holding or represented by proxy not less than twenty-five (25%) of the outstanding Common Shares of the Corporation entitled to vote at the meeting, constitutes a quorum for the meeting in respect of holders of Common Shares.

The following table sets forth, as of this management information circular, the only person or entity, to the knowledge of the directors and the executive officers of the Corporation, who beneficially own, directly or indirectly, or exercise control or direction over more than ten (10%) percent of the voting rights attached to the outstanding Common Shares of the Corporation that are entitled to vote at the meeting.

<u>Name</u>	<u>Type Of Ownership</u>	<u>Number and Class of Shares Owned</u>	<u>Percentage of Class</u>
Stephen H.H. Kwan	Direct	560,000	12.4%

Notes:

- (1) Does not include 160,000 share purchase warrants, owned directly by Stephen H.H. Kwan. Each share purchase warrant entitles the holder to purchase one (1) Common Share at a purchase price of \$0.30 per Common Share, on or before November 30, 1996.
- (2) Mr. Stephen H. H. Kwan also has a stock option to acquire 50,000 Common Shares of the Corporation upon payment of \$0.25 per Common Share.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

A. Compensation of Executive Officers

During the last fiscal period ended December 31, 1995, and as at the date hereof, the Corporation employs one (1) executive officer. The aggregate cash compensation (including salaries, fees, director's fees, commissions, bonuses paid for services rendered during the most recently completed fiscal year, bonuses paid during the most recently completed fiscal year for services rendered in a previous year, and any compensation other than bonuses earned during the most recently completed fiscal year the payment of which was deferred) paid to the executive officer by the Corporation during the last fiscal year ended December 31, 1995 was \$27,300.00.

B. Compensation of Directors

Generally speaking, the directors of the Corporation are not paid a fee for services as directors, however, directors are entitled to be reimbursed for all travelling and all other reasonable expenses properly incurred by a director while attending meetings of the board of directors or any committee thereof.

During the last fiscal year ended December 31, 1995, no cash compensation (including fees, director's fees, commissions, bonuses paid for services rendered during the most recently completed fiscal year, bonuses paid during the most recently completed fiscal year for services rendered in a previous year, and any compensation other than bonuses earned during their most recently completed fiscal year, the payment of which was deferred) was paid to directors.

Executive officers of the Corporation who also act as directors of the Corporation, do not receive any additional compensation for services rendered in such capacity, other than as paid by the Corporation to such executive officers in their capacity as executive officers. See "Compensation of Executive Officers".

C. Plans and Share Options

Pursuant to a resolution of the shareholders of the Corporation dated July 4, 1994, the Corporation adopted a directors, officers, employees and consultants stock option plan (the "Plan"), effective the same day. The purpose of the Plan is to afford directors, officers, employees and consultants who provide services to the Corporation, an opportunity to obtain a proprietary interest in the Corporation by permitting them to purchase common shares of the Corporation and to aid in attracting, as well as retaining and encouraging the continued involvement of such persons with the Corporation. Under the terms of the Plan, the board of directors have full authority to administer the Stock Option Plan upon such terms as they, in their discretion shall determine, provided however, that they cannot extend the Plan beyond five years and they cannot amend the terms of the Plan without shareholder approval. Subject to adjustments as set forth in the Plan, ten (10%) percent of the authorized common shares of the Corporation are reserved and set aside for issuance upon exercise of options which may be granted pursuant to the Plan.

The following table sets forth information in respect of all stock options which were granted to executive officers and directors of the Corporation since the commencement of the Corporation's last fiscal year and all stock options which are currently outstanding.

<u>Number of Shares Subject to Option</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Date of Expiry</u>	<u>Price Range of Shares⁽¹⁾</u>	
				<u>High</u>	<u>Low</u>
275,000	April 12, 1995	\$0.25	April 12, 2000	n/a	n/a

Notes:

- (1) The Common Shares of the Corporation did not trade on The Alberta Stock Exchange in the thirty day period immediately preceding the date of grant of the stock options.

No stock options were exercised by executive officers or directors of the Corporation during the last fiscal year ended December 31, 1995.

D. Other Compensation

Other than as herein set forth, the Corporation did not pay any additional compensation to the executive officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the last completed fiscal year.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

The board of directors of the Corporation are not aware of any indebtedness owed or owing by a director, senior officer, a nominee director or an associate or affiliate thereof since the last completed financial year of the Corporation.

During the fiscal period ended December 31, 1994, Dallas E. Hawkins, an officer and director of the Corporation, advanced \$25,000 to the Corporation, through Linden Holdings Inc., a private holding corporation owned and controlled by Dallas E. Hawkins. The advance was non-interest bearing and had no fixed terms of repayment. The advance was repaid to Linden Holdings Inc. on January 5, 1996.

During the fiscal year ended December 31, 1995, Dallas E. Hawkins, an officer and director of the Corporation, advanced to the Corporation, an aggregate amount of \$25,545.69. The advances were non-interest bearing and had no fixed terms of repayment and were repaid on January 5, 1996.

During the fiscal year ended December 31, 1995, Dallas E. Hawkins, an officer and director of the Corporation, advanced, either directly or through Linden Holdings Inc., an aggregate amount of \$20,007.72 to assist the Corporation in acquiring certain oil and gas assets from Magrath Energy Corporation. The advances were non-interest bearing and had no fixed terms of repayment and were repaid as to \$10,000 on August 1, 1995 and \$10,007.72 on November 29, 1995.

During the fiscal year ended December 31, 1995, Brian G. McCombe, a director of the Corporation advanced an aggregate amount of \$12,500 to the Corporation to assist the Corporation in acquiring certain oil and gas assets from Magrath Energy Corporation. The advances were non-interest bearing and had no fixed terms of repayment. The advances were repaid in full on November 30, 1995.

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS AND MATTERS TO BE ACTED UPON

Other than as set forth herein or as previously disclosed by the Corporation, the Corporation is not aware of any other material transaction involving any director, executive officer, or any shareholder holding more than ten (10%) percent of the voting rights attached to the Common Shares of the Corporation or any associate or affiliate of any of the foregoing.

Other than as set forth in this management information circular or as previously disclosed by the Corporation, the Corporation is not aware of any material interest of any director, or executive officer, proposed nominee for election as a director or any associate or affiliate of any of the foregoing in any matter to be acted upon at the meeting.

MANAGEMENT CONTRACTS

There are no management functions of the Corporation which are to any substantial degree performed by a person or company other than the directors or senior officers (or private companies controlled by them, either directly or indirectly) of the Corporation.

PARTICULARS OF MATTERS TO BE ACTED UPON

To the knowledge of the board of directors of the Corporation, the only matters to be brought before the meeting are those matters set forth in the accompanying notice of meeting.

A. Management Report

The board of directors of the Corporation have approved all of the information in the annual report that accompanies this management information circular, including the audited financial statements for the fiscal year ended December 31, 1995, delivered therewith.

B. Fixing Number of Directors and Election of Directors

For this forthcoming year, it is proposed that the board of directors shall consist of four (4) members. Management therefore intends to place before the meeting, for approval, with or without modification, a resolution fixing the board of directors at four (4) members for the next ensuing year. **It is the intention of the management designees, if named as proxy, to vote for the election of the following persons to the board of directors.** Management does not contemplate that any of such nominees will

be unable to serve as directors; however, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, **proxies in favour of management designees will be voted for another nominee in their discretion unless the shareholder has specified in his proxy that his shares are to be withheld from voting in the election of directors.** Each director elected will hold office until the next annual meeting of shareholders or until his successor is duly elected, unless his office is earlier vacated in accordance with Paragraph 4.06 of By-law No. 1 of the Corporation.

The following table sets forth the name of each of the persons proposed to be nominated for election as a director, all positions and offices in the Corporation presently held by him or her, his or her municipality of residence, his or her principal occupation at the present and during the preceding five years, the period during which he or she has served as a director, and the number of voting Common Shares of the Corporation that he or she has advised are beneficially owned by him or her, directly or indirectly, or over which control or direction is exercised, as of the date hereof.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation for past five years</u>	<u>Present Office</u>	<u>Number and Class of Securities Beneficially Owned</u>	<u>% of Class of Common Shares Owned</u>
DALLAS E. HAWKINS Calgary, Alberta	President, Chief Executive Officer and Chief Financial Officer of the Corporation since October, 1994; Prior thereto chairman of Hydromet Environmental Recovery Ltd. (formerly Drake Environmental Recovery Ltd. and Drake Petroleum Ltd.) from 1993 to August 1994; Prior thereto President of Hydromet Environmental Recovery Ltd. since June, 1987.	President, Chief Executive Officer, Chief Financial Officer and Director since January 28, 1994.	412,600 common shares ⁽¹⁾ 136,000 warrants ⁽²⁾ 75,000 options ⁽⁵⁾	9.2%
BRIAN G. McCOMBE Calgary, Alberta	President of Megin Management Ltd. a private investment and oil and gas company.	Director since July 4, 1994.	271,000 common shares 71,000 warrants ⁽²⁾ 25,000 options ⁽⁵⁾	6%
HAROLD E. ANDERSON Calgary, Alberta	Financial consultant since 1992; Prior thereto Manager of the Royal Bank of Canada Oil and Gas Banking Centre.	Director since December 20, 1994.	Nil 25,000 options ⁽⁵⁾	Nil
MICHAEL J. PERKINS Calgary, Alberta	Partner with Ogilvie & Company, Barristers & Solicitors.	Secretary and Director since July 4, 1994.	10,000 common shares ⁽³⁾ 10,000 warrants ⁽²⁾ 25,000 options ⁽⁵⁾	less than 1%
SANDRA MacWHIRTER Calgary, Alberta	Assistant Secretary of the Corporation since June, 1994; Prior thereto Secretary of Piper Petroleums Ltd; Prior thereto Secretary of Hydromet Environmental Recovery Ltd. since August, 1990.	Assistant Secretary since July 4, 1994.	318,000 common shares ⁽⁴⁾ 318,000 warrants ⁽²⁾ 25,000 options ⁽⁵⁾	7%

Notes:

- (1) 1,500 of the aforesaid Common Shares are owned by a corporation controlled by Dallas E. Hawkins.
- (2) Each share purchase warrant entitles the holder to purchase one (1) Common Share at a purchase price of \$0.30 per Common Share, on or before November 30, 1996.

- (3) 10,000 of the aforesaid Common Shares are owned by a corporation controlled by Michael J. Perkins.
- (4) 286,000 of the aforesaid Common Shares are owned by a corporation controlled by Sandra MacWhirter.
- (5) Represents stock options to purchase Common Shares of the Corporation. See "Plans and Share Options".

The number of voting securities of the Corporation beneficially owned, directly or indirectly or indirectly, by all directors, executive officers and principal shareholders of the Corporation as a group as at the date hereof is set forth below.

Designation of Class	Number of Shares	Percentage of Class
Common Shares	1,571,600	34.9%

The audit committee of the board of directors currently consists of Dallas E. Hawkins, Harold E. Anderson and Brian G. McCombe. The general function of the audit committee is to review the overall audit plan and the Corporation's system of internal controls, to review the results of the external audit, and to resolve any potential dispute with the Corporation's auditors. The board of directors does not have an executive committee.

C. Appointment of Auditors

The management of the Corporation intends to nominate Collins Barrow, Chartered Accountants, for appointment as the auditor of the Corporation. Forms of proxy given pursuant to the solicitation of the management of the Corporation will, on any poll, be voted as directed and, if there is no direction, for the appointment of Collins Barrow as the auditor of the Corporation to hold office until the close of the next annual general meeting of the Corporation, at a remuneration to be fixed by the directors. Collins Barrow, Chartered Accountants, were first appointed the auditor of the Corporation on July 4, 1994.

GENERAL

The approval of each resolution set forth in this management information circular requires for the passing of same, a simple majority of the votes cast at the meeting by the holders of Common Shares. If a majority of the Common Shares represented at the meeting should be voted against the appointment of Collins Barrow, Chartered Accountants, as the auditors of the Corporation, the board of directors will appoint another firm of chartered accountants based upon the recommendation of the audit committee, which appointment for any period subsequent to the 1996 meeting of shareholders shall be subject to approval by the shareholders at the meeting.

BOARD APPROVAL

The contents and the sending of this management information circular have been approved by the board of directors of the Corporation.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED at the City of Calgary, in the Province of Alberta, this 15th day of May, 1996.

BY ORDER OF THE BOARD OF DIRECTORS

Dallas E. Hawkins

Chief Executive Officer and Chief Financial
Officer

DRAKE PACIFIC ENTERPRISES LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 1995

1400 First Alberta Place
777-8th Avenue S.W.
Calgary, Canada T2P 3R5
Telephone: (403) 298-1500
Fax: (403) 237-0330

AUDITORS' REPORT

To the Shareholders
Drake Pacific Enterprises Ltd.

We have audited the balance sheets of Drake Pacific Enterprises Ltd. as at December 31, 1995 and 1994 and the statements of loss and deficit and cash flow for the year ended December 31, 1995 and the period from commencement of operations, March 21, 1994 to December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994 and the results of its operations and cash flow for the periods then ended in accordance with generally accepted accounting principles.

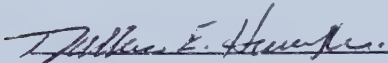
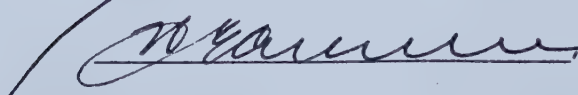
Collins Barrow
CHARTERED ACCOUNTANTS

Calgary, Alberta
March 15, 1996

DRAKE PACIFIC ENTERPRISES LTD.
BALANCE SHEETS
DECEMBER 31, 1995

	1995	1994
Assets		
Current assets		
Cash	\$ 45,129	\$ 11,881
Accounts receivable	21,372	33,479
Prepaid expenses	3,935	5,064
Share subscription receivable (note 10[e])	92,000	-
Loan receivable (note 4)	96,500	-
	258,936	50,424
Capital assets (note 5)	412,844	14,481
Deferred public offering costs (note 6)	-	45,975
	\$ 671,780	\$ 110,880
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 99,720	\$ 39,378
Due to director (note 7)	70,553	25,000
Current portion of long-term debt	35,000	-
	205,273	64,378
Long-term debt (note 8)	70,000	-
Future site restoration costs	932	-
Shareholders' Equity		
Share capital (note 10)	546,357	100,100
Deficit	(150,782)	(53,598)
	395,575	46,502
	\$ 671,780	\$ 110,880

Approved by the Board,

, Director


DRAKE PACIFIC ENTERPRISES LTD.
STATEMENTS OF LOSS AND DEFICIT
YEAR ENDED DECEMBER 31, 1995

*(with comparative figures for the period from commencement of operations,
March 21, 1994 to December 31, 1994)*

	1995	1994
Revenue		
Oil and gas sales, net of royalties	\$ 49,506	\$ -
Interest and other	66	713
	49,572	713
Expenses		
Operating	30,311	-
General and administrative	75,926	54,311
Depletion and depreciation	40,519	-
	146,756	54,311
Net loss	97,184	53,598
Deficit, beginning of period	53,598	-
Deficit, end of period	\$ 150,782	\$ 53,598
Loss per share	\$ 0.04	\$ 0.05

DRAKE PACIFIC ENTERPRISES LTD.
STATEMENTS OF CASH FLOW
YEAR ENDED DECEMBER 31, 1995

*(with comparative figures for the period from commencement of operations,
March 21, 1994 to December 31, 1994)*

	1995	1994
Operating activities		
Net loss	\$ (97,184)	\$ (53,598)
Add item not requiring cash		
Depletion and depreciation	40,519	-
	(56,665)	(53,598)
Net change in non-cash working capital balances	5,601	(5,962)
	(51,064)	(59,560)
Financing activities		
Reclassification of deferred public offering costs (deferred public offering costs)	45,975	(45,975)
Advances from directors and shareholders, net	45,553	25,000
Proceeds on long-term debt, net	105,000	-
Issuance of share capital	650,000	100,100
Share issue costs	(203,743)	-
Net change in non-cash working capital balances	(37,174)	6,797
	605,611	85,922
Investing activities		
Advance of loan receivable	(96,500)	-
Acquisition of capital assets	(437,950)	(14,481)
Net change in non-cash working capital balances	13,151	-
	(521,299)	(14,481)
Cash inflow	33,248	11,881
Cash, beginning of period	11,881	-
Cash, end of period	\$ 45,129	\$ 11,881

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995 AND 1994

1. Incorporation

The Corporation was incorporated under the Business Corporations Act (Alberta) on January 28, 1994.

2. Nature of operations

The Corporation commenced operations on March 21, 1994 with the intent to secure equity financing which it proposes to use to generate cash flow through exploration and development of prospects and the acquisition of resource properties. The initial resource base focus is Western Canada, however, the Corporation intends to diversify its focus internationally to Mexico, China and other Pacific Rim countries, subject to obtaining appropriate financing.

3. Significant accounting policies

(a) Exploration and development costs

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based upon proven oil and gas reserves as determined by independent engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

Costs subject to depletion under the full cost method include estimated future removal and site restoration costs. This would include the cost of production equipment removal and environmental cleanup based upon existing regulations and economic circumstances at year end. The current period's provision for future removal and site restoration costs is included in depletion and depreciation expense.

In applying the full cost method, the Corporation performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes ("cost ceiling"). Costs to acquire significant proved reserves are excluded from the ceiling test for a period of 24 months following acquisition, provided any excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount (note 5).

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

(b) Joint venture accounting

Substantially all of the exploration and production activities of the Corporation are conducted jointly with others and accordingly these accounts reflect only the Corporation's proportionate interest in these activities.

(c) Depreciation

Depreciation of other equipment is recorded using the declining balance method at rates of 20% to 30% per annum.

(d) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Corporation.

Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(e) Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the period. The exercise of options and warrants would not be materially dilutive.

4. Loan receivable

Loan receivable is comprised of an amount due from a company whose director is related to a director of the Corporation for the purchase of shares of the Corporation. The amount is due on demand, non-interest bearing and unsecured. The amount was repaid in full subsequent to the year end.

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

5. Capital assets

	1995		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties, including exploration and development thereon	\$ 352,485	\$ 29,228	\$ 323,257
Lease and well equipment	85,465	7,087	78,378
Other equipment	14,481	3,272	11,209
	<u>\$ 452,431</u>	<u>\$ 39,587</u>	<u>\$ 412,844</u>
	1994		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties, including exploration and development thereon	\$ -	\$ -	\$ -
Lease and well equipment	-	-	-
Other equipment	14,481	-	14,481
	<u>\$ 14,481</u>	<u>\$ -</u>	<u>\$ 14,481</u>

As described in note 9, the Corporation acquired oil and gas property and equipment from Magrath Energy Corporation. The "cost ceiling" (based on prices in effect at December 31, 1995 and calculated as described in (note 3[a]) of the oil and gas properties acquired was less than the capitalized cost of those assets by approximately \$300,700. This excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount and as a result, no writedown has been recorded.

Future removal and site restoration costs have been estimated at \$11,250 (1994 - nil) of which \$932 (1994 - nil) has been charged to current earnings.

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

6. Deferred public offering costs

Deferred public offering costs were charged to share capital upon the completion of the public offering (note 10[c]).

7. Due to director

Due to director is comprised of advances to the Corporation for the purchase of certain petroleum and natural gas properties and equipment (note 9). The advances are due on demand, non-interest bearing and unsecured. The amount was repaid in full subsequent to the year end.

8. Long-term debt

Long-term debt consists of a demand non-revolving loan bearing interest at a Canadian chartered bank's prime rate plus 1.5% per annum, payable monthly, principal repayable in monthly payments of \$5,000 commencing June 1, 1996. Principal repayments will be \$35,000 in 1996, \$60,000 in 1997 and \$10,000 in 1998. The facility is secured by a general security agreement covering all present and after acquired property of the Corporation and a first fixed and floating charge over the assets purchased from Magrath Energy Corporation (note 9).

Subsequent to the year end, the Corporation obtained a demand revolving loan to a maximum of \$95,000 bearing interest at a Canadian chartered bank's prime rate plus 1.5% per annum, secured by a general security agreement covering all present and after acquired property and a first fixed and floating charge over petroleum and natural gas properties and equipment and certain petroleum and natural gas properties and equipment purchased subsequent to the year end.

9. Acquisition

On July 31, 1995, the Corporation acquired certain petroleum and natural gas properties and equipment from Magrath Energy Corporation.

The purchase price allocation was as follows:

Petroleum and natural gas rights	\$ 325,088
Tangible equipment	81,272
Miscellaneous interests	<u>1</u>
Total purchase price	<u>\$ 406,361</u>

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

Consideration for the purchase consisted of:

Loan payable	\$ 125,000
Due to directors and shareholders (note 7)	100,000
Demand non-revolving loan (note 8)	200,000
Less: purchase price adjustment, revenue to closing	<u>(18,639)</u>
Total consideration	<u>\$ 406,361</u>

In connection with the purchase, \$10,625 was paid to Nu-Sky (note 10[d]) April 13, 1995.

The loan payable bore interest at a Canadian chartered bank's prime rate plus 3% per annum and was repaid on November 30, 1995 out of the funds raised by the public offering (note 10[c]).

10. Share capital

(a) Authorized

Unlimited number of voting common shares

Unlimited number of non-voting preferred shares, issuable in series

(b) Issued

Common shares

	1995		1994	
	Number	Stated Value	Number	Stated Value
Balance, beginning of period	2,000,100	\$ 100,100	-	\$ -
Issued				
For cash	-	-	2,000,100	100,100
Pursuant to Agency Agreement (note 10[c])	2,200,000	550,000	-	-
Pursuant to a flow-through share offering memorandum (note 10[e])	<u>222,223</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>4,422,323</u>	<u>750,100</u>	<u>2,000,100</u>	<u>100,100</u>
Less: Share issuance costs		<u>203,743</u>		<u>-</u>
		<u>\$ 546,357</u>		<u>\$ 100,100</u>

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

- (c) On November 30, 1995, the Corporation entered into an Agency Agreement with Rogers & Partners Securities Inc. (the "Agent") whereby the Agent sold a minimum of 2,200,000 Units of the Corporation at a price of \$0.25 per Unit for aggregate proceeds of \$550,000 before Agent's commission of \$60,350. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one additional common share at an exercise price of \$0.30 per share until expiry November 30, 1996.

The Corporation granted to the Agent an option to purchase 220,000 common shares at an exercise price of \$0.25 per common share expiring May 30, 1997.

- (d) Pursuant to a Letter Agreement dated April 13, 1995 between the Corporation and Nu-Sky Energy Inc. ("Nu-Sky"), the Corporation agreed to pay Nu-Sky as a finder's fee \$10,625 and upon closing of the public offering (note 10[c]), remit to Nu-Sky 85,000 common shares at \$0.25 per share of the Corporation. Subsequent to the year end, the Corporation issued 85,000 common shares under this agreement.
- (e) On December 22, 1995, the Corporation entered into an Agency Agreement with McDermid St. Lawrence Chisholm Ltd. (the "Agent") whereby the Agent sold a minimum of 222,223 Units at a price of \$0.45 per Unit for aggregate proceeds of \$100,000 before Agent's commission of \$8,000 pursuant to an Offering Memorandum. Each Unit consists of one flow-through common share and one share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one additional flow-through common share ("additional flow-through share") at a purchase price of \$0.50 on or before March 31, 1996. The proceeds of this issue were received February 27, 1996.

In accordance with the terms of the offering and pursuant to certain provisions of the Income Tax Act (Canada), the Corporation renounced, for income tax purposes, exploration and development expenditures incurred to February 28, 1996 to the holder of the common shares in the amount of \$100,000. The Corporation has agreed that it will use its reasonable commercial efforts to incur on or before March 1, 1997, Canadian Development Expenditures and Canadian Exploration Expenditures equal to the full gross proceeds paid by the subscriber to acquire additional flow-through shares.

- (f) At December 31, 1995, 2,000,100 common shares are held in escrow releasable, on a pro rata basis, after obtaining the prior consent of the Director of the Alberta Securities Commission as follows:
- (i) 15% upon completion of the distribution of common shares offered pursuant to the Prospectus (note 10[c]);
 - (ii) 25% upon satisfactory completion of the work program disclosed in the Prospectus (note 10[c]); and,
 - (iii) the remaining 60% to be automatically released at the end of each of the second, third, fourth and fifth year from the date of the Prospectus (note 10[c]).

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995 AND 1994

Subsequent to the year end, the Corporation applied for the release of 15% and 25% of the escrowed shares as described above. The Corporation is awaiting approval of the application.

- (g) On April 12, 1995, the Corporation entered into stock option agreements with directors, officers, employees and consultants of the Corporation under which 275,000 common shares have been reserved for issuance. The options may be exercised at a price of \$0.25 per share until expiry on April 12, 2000.

11. Income taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates of 44.58% (1994 - 44.34%) to net loss. The difference results from the following:

	1995	1994
Expected income tax provision	\$ (43,325)	\$ (23,765)
Increase (decrease) resulting from:		
Non-deductible crown payments, net		
Alberta royalty tax credit	1,703	-
Deferred tax benefit not recognized	40,569	23,419
Other	1,053	346
Reported income tax provision	\$ -	\$ -

The financial statements do not reflect potential tax reductions available through the application of losses carried forward against future years' earnings subject to income taxes. These losses expire as follows:

<u>Expiry Date</u>	
2001	\$ 51,849
2002	91,233
	<u>\$143,082</u>

12. Lease commitment

The Corporation is committed to monthly lease payments in the amount of \$1,516 until expiry July 31, 1996.

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

13. Related party transactions

During the year, several directors and shareholders of the Corporation advanced \$100,000 (1994 - nil) to the Corporation to finance the acquisition of petroleum and natural gas properties from Magrath Energy Corporation (note 9). The amounts were non-interest bearing, unsecured and all amounts, except as disclosed in note 7, were repaid upon closing of the public offering (note 10[c]).

Exchange Offering Prospectus

Neither The Alberta Stock Exchange, Alberta Securities Commission nor any other securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. This exchange offering prospectus constitutes a public offering of these securities only in the Province of Alberta. Prospective investors may wish to obtain further information from the documents filed with The Alberta Stock Exchange and the Alberta Securities Commission Agency and listed herein or from the Corporation.

NEW ISSUE

June 20, 1995

DRAKE PACIFIC ENTERPRISES LTD. (A JUNIOR RESOURCE CORPORATION)

Minimum Offering: 2,500,000 Units for \$625,000

Maximum Offering: 3,200,000 Units for \$800,000

**Unit consisting of one (1) Common Share
and one (1) Share Purchase Warrant**

Price: \$0.25 Per Unit

Drake Pacific Enterprises Ltd. (the "Corporation") a junior oil and gas corporation, is offering for sale to the public a maximum of 3,200,000 Units and a minimum of 2,500,000 Units at a price of \$0.25 per Unit (the "Offering Price") for an offering of a maximum of \$800,000 and a minimum of \$625,000. Each unit ("Unit") consists of one (1) common share in the share capital of the Corporation ("Common Share") and one (1) share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one (1) additional Common Share at an exercise price of \$0.30 per Common Share exercisable at any time during the twelve (12) month period following the closing of this offering. See "Details of the Offering". The net proceeds from the sale of the Units will be used to finance the purchase of certain oil and gas assets ("Assets"). The offering price of \$0.25 per Unit was determined by the Corporation. The closing of this offering is conditional upon the concurrent closing of the acquisition of the Assets. See "Business of the Corporation", "Use of Proceeds" and "Acquisition of Oil and Gas Assets".

These securities should be considered highly speculative due to the nature of the Corporation's business and its present stage of development. The Corporation has a very limited business history and intends to acquire certain oil and natural gas assets, (a description of which is included herein) using the proceeds of this offering. The success of further exploration or development prospect cannot be assured. Subscribers must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. See "Risk Factors".

	Units	Price to Public	Agent's Commission ⁽¹⁾	Proceeds to Corporation ⁽²⁾
Unit		\$0.25	\$0.025	\$0.225
Maximum Offering	3,200,000	\$800,000	\$80,000	\$720,000
Minimum Offering	2,500,000	\$625,000	\$62,500	\$562,500

(1) An agency fee of \$10,000 and a 10% commission will be paid to Rogers & Partners Securities Inc. (the "Agent"). In addition, the Agent will be granted a non-transferrable option to purchase a number of common shares equal to 10% of the Units subscribed if the minimum offering is achieved at \$0.25 per Common Share ("Agent's Option"), which option will be qualified for distribution under this exchange offering prospectus ("Exchange Offering Prospectus" or "Prospectus") exercisable at any time during the eighteen (18) month period following the closing of this offering. See "Details of the Offering".

(2) Before deducting the agency fee of \$10,000 and the expenses of this offering estimated at \$50,000.

The Common Shares offered hereunder and the Common Shares issuable on exercise of the Warrants are conditionally approved for listing on The Alberta Stock Exchange, subject to completion of formal documentation. It is intended that the Common Shares will trade on The Alberta Stock Exchange.

THIS IS A FIXED PRICE OFFERING BEING MADE THROUGH THE FACILITIES OF THE ALBERTA STOCK EXCHANGE. The minimum offering must be raised and an Offering Day must occur within 90 days of the issuance of a receipt for the filing of the final Prospectus or such other time as may be authorized by the Chief of Securities Administration of the Alberta Securities Commission Agency and by The Alberta Stock Exchange and agreed to by the Agent and the Corporation. Rogers & Partners Securities Inc. is acting as Agent to the Corporation on a best efforts basis. The Units are being offered subject to the conditions contained in the Agency Agreement and subject to the approval of Ogilvie and Company, Barristers and Solicitors, Calgary, Alberta, of such legal matters on behalf of the Corporation for which approval is specifically sought by the Corporation and by Parlee McLaws, Barristers and Solicitors, Calgary, Alberta, of such legal matters on behalf of the Agent.

Rogers & Partners Securities Inc.
+ 15, First Alberta Place
777 - 8th Avenue S.W.
Calgary, Alberta T2P 3R5

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GLOSSARY OF TERMS

Certain terms used in this Exchange Offering Prospectus are defined below:

"Common Shares" means Common Shares in the capital of the Corporation;

"DCF" means discounted cash flow;

"Mmbtu" means one million British thermal units;

"Mmcf" means one million cubic feet;

"Mmcfd" means one million cubic feet per day;

"Mcf" means one thousand standard cubic feet of gas - saleable measured at 14.65 psia and 60°F;

"psia" means pressure measured as pounds per square inch absolute;

"M\$" means thousands of dollars; and

"\$" means dollars.

THE CORPORATION

Drake Pacific Enterprises Ltd. (the "Corporation") was incorporated under the laws of the Province of Alberta on January 28, 1994. Pursuant to a Certificate of Amendment, dated January 3, 1995, the Corporation was reorganized as a distributing corporation. The head office of the Corporation is located at 360, 435 - 4th Avenue SW, Calgary, Alberta, T2P 3A8 and the registered office of the Corporation is located at 1600, 407 - 2nd Street, S.W., Calgary, Alberta, T2P 2Y3. The Corporation has no subsidiaries.

BUSINESS OF THE CORPORATION

The principal business of the Corporation is the acquisition of, exploration for and development and production of oil and natural gas properties in Western Canada. The Corporation entered into an Option Agreement effective May 26, 1995 whereby the Corporation acquired an option, subject to certain conditions, to purchase a fifty (50%) percent interest in certain oil and natural gas assets and natural gas processing facilities situated in the Taber area of Alberta. The option provides that the Corporation has until July 17, 1995 to exercise its option. See "Acquisition of Oil and Gas Assets".

The Corporation's business strategy focuses on the generation of cash flow through exploration and development of prospects and acquisition of natural resources. The initial resource base focus is Western Canada, however, the Corporation intends to diversify its focus internationally to Mexico, China and other Pacific Rim countries, subject to obtaining appropriate financing.

ACQUISITION OF OIL AND GAS ASSETS

Pursuant to an Option Agreement effective May 26, 1995, the Corporation acquired an option (the "Option") to purchase a fifty (50%) percent interest in certain petroleum and natural gas assets and natural gas processing facilities situated in the Taber area of Alberta (the "Assets") from Magrath Energy Corporation (the "Vendor"). This is an arm's length transaction.

It is intended that the Corporation will exercise the Option and the acquisition of the Assets will close concurrently with this offering, with an effective date of January 1, 1995 (the "Effective Date"). The Corporation intends to exercise the Option and acquire the Assets (the "Acquisition"). The purchase price to be paid at the closing of the acquisition of Assets is \$425,000. The purchase price to be paid at the closing of the acquisition of Assets shall be adjusted as of the Effective Date.

The Corporation and Nu-Sky Energy Inc. ("Nu-Sky") have entered into a letter agreement, dated April 13, 1995, ("Letter Agreement") whereby the Corporation paid Nu-Sky ten thousand six hundred twenty-five (\$10,625.00) dollars and upon closing of this offering either grant Nu-Sky eighty five thousand (85,000) common shares of the Corporation or, alternatively, a second cash

payment of ten thousand six hundred twenty five (\$10,625.00) dollars as a finders fee. Under the terms of the Letter Agreement Nu-Sky also has an option for fourteen (14) days if the Corporation does not exercise its option, to take the place of the Corporation and exercise the option to purchase 50% of the interest to be purchased by the Corporation pursuant to the Acquisition. See "Use of Proceeds".

Principal Properties

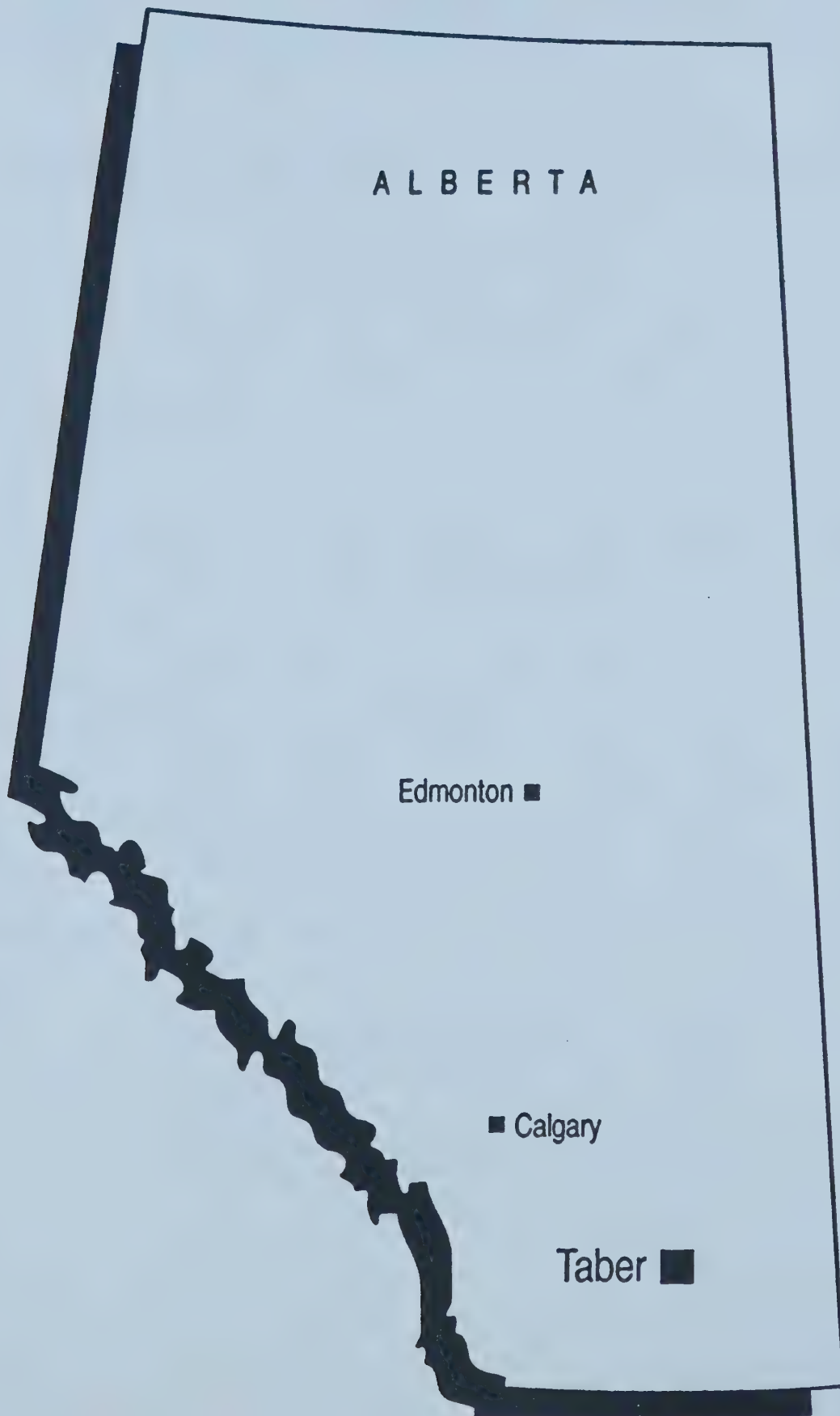
Taber, Alberta

The Taber area of Alberta is located approximately 150 miles southeast of Calgary, Alberta. The Vendor has a 100% working interest in three producing gas wells. During 1994, the three producing wells are expected to produce one Mmcfd of natural gas, gross to the Corporation. The Vendor currently produces its natural gas through a processing facility owned by the Vendor and situated on the properties ("Plant"). The Plant has excess capacity to produce an additional 1.2 Mmcfd. The Corporation intends to utilize the additional capacity to generate additional revenue by assigning its interest in two undeveloped sections of land to be purchased by the Corporation pursuant to the Acquisition, and the Corporation intends to process any natural gas produced from such wells, although there is no assurance this will occur. See "Use of Proceeds" and "Risk Factors".

Reserves

McDaniel & Associates Consultants Ltd., independent engineering consultants ("McDaniel") have prepared two engineering reports, dated October 6, 1994, an addendum letter dated April 25, 1995 and an engineering report dated June 2, 1995 ("McDaniel Report"), with respect to the Vendor's interest in the reserves, as at September 1, 1994, from data supplied by the Vendor. In these reports McDaniel estimates the proved producing, proved non-producing and probable reserves owned by the Vendor and calculated on the basis of the constant price factors and the price escalation factors listed herein, the undiscounted pretax cash flow and the pretax cash flow discounted at 0%, 10%, 15%, 20% and 25% from the reserves after capital requirements, royalties, operating costs excluding Alberta Royalty Tax Credit and before income taxes and indirect costs. The Corporation is not aware of any material adverse change from the facts reported.

Principal Properties



It should not be assumed that the present value of future net cash flow is representative of the fair market value of the reserves. Investors are cautioned that the present worth of estimated future net cash flow is based on escalating price and cost assumptions, and there is no assurance that such price and cost escalations will be attained and variances could be material.

The following tables reflect the ownership interests of the Vendor which the Corporation has an Option to purchase. See "Acquisition of Oil and Gas Assets" and "Use of Proceeds".

GAS RESERVES BASED ON CONSTANT PRICE ASSUMPTION							
	Natural Gas		Undiscounted	Discounted			
	Gross Mcf	Net Mcf	\$	at 10% \$	at 15% \$	at 20% \$	at 25% \$
Proved							
Producing	710,731	611,405	557,113	444,094	402,629	368,225	339,349
Non-Producing							
TOTAL Proved	710,731	611,405	557,113	444,094	402,629	368,225	339,349
Probable Additional Reserves	90,500	76,690	19,337	15,266	13,730	12,480	11,446
Sub-total	801,231	688,095	576,450	459,360	416,359	380,705	350,795
Alberta Royalty Tax Credit			83,900	64,550	58,000	52,750	48,477
TOTAL Present Worth Values	801,231	688,095	660,350	523,910	474,359	433,455	399,272

See Notes and Assumptions at the end of Summary of Operating Costs for Escalated Price Assumption Table.

The following constant product prices and operating costs have been used in the McDaniel Report:

PRODUCT PRICE SCHEDULE SEPTEMBER 1, 1994	
PROPERTY	Gas (\$/Mmbtu)
Taber	1.90

Note: No escalation was applied to future prices or operating costs.

SUMMARY OF OPERATING COSTS SEPTEMBER 1, 1994 (\$)	
1994	27,910
1995	75,546
1996	67,428
1997	62,177
1998	58,495
1999	55,782
2000	53,711

Note: Operating costs are based upon data provided by the Vendor, or were obtained from public sources and from the files of McDaniel.

GAS RESERVES BASED ON ESCALATED PRICE ASSUMPTION							
Remaining Reserves			Future Cash Flow				
Natural Gas			Undiscounted	Discounted			
	Gross Mcf	Net Mcf		at 10% \$	at 15% \$	at 20% \$	at 25% \$
Proved							
Producing	710,731	603,452	820,292	611,306	541,258	485,724	440,861
Non-Producing							
TOTAL Proved	710,731	603,452	820,292	611,306	541,258	485,724	440,861
Probable Additional Reserves	90,500	75,542	27,969	20,691	18,185	16,229	14,666
Subtotal	801,231	678,994	848,261	631,997	559,443	501,953	455,527
Alberta Royalty Tax Credit			87,050	68,800	62,450	57,250	52,950
Present Worth Value			935,311	700,797	621,893	559,203	508,477

The following escalating product prices and operating costs have been used in the McDaniel Report.

PRODUCT PRICE SCHEDULE JULY 1, 1994	
YEAR	Natural Gas (\$/Mmbtu)
1994	2.10
1995	2.20
1996	2.30
1997	2.35
1998	2.45
1999	2.55
2000	2.70

Note: Alberta Spot Price

SUMMARY OF OPERATING COSTS SEPTEMBER 1, 1994 (\$)	
1994	27,910
1995	77,057
1996	70,839
1997	67,282
1998	65,197
1999	64,040
2000	64,126

Note: Operating costs are based upon data provided by the Vendor, or were obtained from public services and from the files of McDaniel.

NOTES AND ASSUMPTIONS TO CONSTANT AND ESCALATED PRICE TABLES:

- (1) Probable additional reserves were presented unrisked. Probable additional present worth values presented in this report were estimated on the basis of 25 percent of the per unit values of the proved reserves which is based

- on 50 percent reduction to account for the timing and anticipated profitability of producing these reserves plus a 50 percent reduction as an allowance for the risk associated with producing these reserves.
- (2) The values shown above do not necessarily represent the fair market value of the reserves.
 - (3) Before Alberta Royalty Tax Credits and corporate income tax and after applicable capital expenditures and operating costs.
 - (4) An allowance for future well and lease abandonment costs of \$7,500 per well has been made for all of the Vendor's working interest wells.
 - (5) The following reserve classifications have been used in the McDaniel Report:
 "Proved Reserves" are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economically and technically successful in the subject reservoir.
 "Proved Producing Reserves" are those proved reserves that are actually on production, or, if not producing that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of the owner rather than the lack of markets or some other reasons.
 "Proved Nonproducing Reserves" are those reserves that are not currently producing either due to the lack of facilities and/or markets.
 "Probable Reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.
 - (6) Natural gas reserves are reported at a base pressure of 14.65 psia and a base temperature of 60 degrees fahrenheit.
 - (7) The present worth values and the future net reserves of crude oil and natural gas are presented, before income taxes in Canadian dollars, after deduction of all royalties, as well as estimated capital and operating costs.
 - (8) "Gross Reserves" are defined as the aggregate of the Corporation's working interest and royalty interest reserves before deductions of royalties payable to others.
 - (9) "Net Reserves" are gross reserves less all royalties payable to others.
 Essentially all of the proved reserves were considered to be developed.
 - (10) The McDaniel Report estimated the future capital requirements as nil for all of the Vendor's working interest wells.
 - (11) The McDaniel Report forecasted fixed well costs to be \$600 per well per month and Operating Costs to be \$1,700 per well per month plus \$0.25 per MCF for gas gathering and compression costs.
 - (12) No allowance was made for the Alberta Royalty Tax Credit (ARTC) in the conventional reserve and present worth value tables in the McDaniel Report. The Vendor's share of present worth values of ARTC are as follows:

(a) Constant Pricing

Discount Rate of %	Vendor's share of ARTC \$
0	167,801
10	129,062
15	115,968
20	105,497
25	96,953

(b) Escalated Pricing

<u>Discount Rate of %</u>	<u>Vendor's Share of ARTC \$</u>
0	174,128
10	137,595
15	124,859
20	114,491
25	105,891

Note: The Corporation will be entitled to 50% of the Vendor's share of ARTC from the Effective Date.

Production History

Period	Gas(Mmcf)
November to December 31, 1991	33,364
Year ended December 31, 1992	176,954
Year ended December 31, 1993	171,382

Undeveloped Lands

The following table sets forth the undeveloped land holdings as at September 1, 1994, which have not been assigned reserves and will be subject to the Option of the Corporation. The undeveloped land holdings have been assigned a value by McDaniel of \$20,000, as of January 1, 1995. See "Acquisition of the Oil and Gas Assets".

AREA	UNPROVEN ACREAGE (ACRES)
Taber	1280
Total:	1280

Notes: The Corporation will hold a 50% working interest in the unproven acreage.

Drilling Program

The management of the Corporation believes that the Assets to be purchased will not require any capital expenditures during the next 12 months.

USE OF PROCEEDS

The total gross proceeds to the Corporation from the sale of the Units offered by this Exchange Offering Prospectus will be \$800,000 if the maximum offering is achieved and \$625,000 if the minimum offering is achieved, from which will be deducted the expenses of this offering, estimated at \$50,000, and a commission and agency fee of \$90,000 if the maximum offering is achieved and \$72,500 if a minimum offering is achieved. Accordingly, the net proceeds to be realized by the Corporation are estimated to be \$660,000 if the maximum offering is achieved and \$502,500 if the minimum offering is achieved.

The funds raised on the offering shall be used to acquire the Assets. The anticipated allocation of funds from this offering is as follows.

	Minimum Offering	Maximum Offering
Net Proceeds of the Offering	\$ 502,500	\$ 660,000
Acquisition of Oil and Gas Assets	\$ 425,000	\$ 425,000
Nu-Sky Finders Fee ⁽¹⁾	\$ 10,625	\$ 10,625
Credit Facility	nil	nil
Addition to Working Capital	\$ 66,875	\$ 224,375

- (1) The Corporation has an option to pay Nu-Sky a finders fee of \$10,625 or issue to Nu-Sky 85,000 common shares of the Corporation. See "Acquisition of Oil and Gas Assets".

The Corporation intends to finance the Acquisition through a combination of the Corporation's current funds, the net proceeds of the offering and a credit facility. The Corporation has arranged for a demand non-revolving credit facility with a Canadian chartered bank for up to \$200,000. It is anticipated that future working capital will be financed by cash flow and revenue from natural gas production and natural gas processing fees. Pursuant to the Letter Agreement, the Corporation has agreed to assign in trust its interest in two undeveloped sections of land to be purchased by the Corporation pursuant to the Acquisition, whereby two development wells would be drilled and any natural gas produced from the well would be processed by the Corporation and the Corporation would be entitled to a five (5%) percent gross overriding royalty in the Second White Specks formation. The Corporation is also examining alternative means to increase its working capital to assist the financing of any acquisitions, exploration or development of oil and natural gas properties which it may undertake as well as other ventures undertaken by the Corporation, in Western Canada, or internationally in Mexico, China and other Pacific Rim countries. Any proceeds derived from the issuance of Units upon the exercise of the option granted to the Agent will be used to reduce any outstanding credit facility or will

be added to the Corporation's working capital. See "Details of the Offering" and "Acquisition of Oil and Gas Assets".

DETAILS OF THE OFFERING

The Corporation and Rogers & Partners Securities Inc. (the "Agent") have executed an Agency Letter Agreement, dated October 12, 1994, ("Agency Letter Agreement") which is subject to the Corporation and the Agent entering into a formal agency agreement reflecting the terms of the Agency Letter Agreement.

Pursuant to an agency agreement dated June 20, 1995, between the Corporation and the Agent (the "Agency Agreement"), the Agent has agreed to act as agent for the Corporation to offer for sale to the public on a best efforts basis a maximum offering of \$800,000 and a minimum offering of \$625,000. Each Unit is being offered at a price of \$0.25 per Unit ("Offering Price") and consists of one (1) Common Share and one (1) Share Purchase Warrant. One Share Purchase Warrant entitles the holder to acquire one additional Common Share at an exercise price of \$0.30 per Common Share, exercisable at any time during the twelve (12) month period following the closing of this offering. The offering is a fixed price offering being made through the facilities of The Alberta Stock Exchange. It is intended that the Common Shares will be listed for trading on The Alberta Stock Exchange. The Units and Warrants will not be listed nor will they trade separately.

Both the Common Shares and the Warrants are detachable immediately following issuance. The prospectus qualifies for distribution a maximum of 3,200,000 Common Shares, 3,200,000 Warrants and 3,200,000 Common Shares issuable upon the exercise of the Warrants and a minimum of 2,500,000 Common Shares, 2,500,000 Warrants and 2,500,000 Common Shares issuable upon the exercise of the Warrants. This prospectus also qualifies for distribution of eighty-five thousand (85,000) Common Shares to be granted to Nu-Sky as partial payment of a finders fee.

The Agent will receive a commission of 10% and an agency fee of \$10,000. In addition, the Corporation has agreed to grant a non-transferrable option to the Agent to purchase a number of Common Shares equal to ten (10%) per cent of the number of Units subscribed for at \$0.25 per Unit at an exercise price per Common Share equal to the Offering Price, exercisable at any time during the eighteen (18) month period following the closing of this offering ("Agent's Option"). The Agent's Option and any Common Share into which such option may be converted will be qualified for distribution under this Exchange Offering Prospectus.

The Agent has agreed to use its best efforts to secure subscriptions offered hereunder on behalf of the Corporation and may make co-brokerage arrangements with other investment dealers at no additional cost to the Corporation.

The obligations of the Agent under the Agency Agreement may be terminated at the Agent's discretion on the basis of its assessment of the state of the financial markets and may also be terminated at any time upon the occurrence of certain stated events.

The minimum offering is 2,500,000 Units. If the minimum offering is not obtained on the closing of the offering, this offering will be cancelled and subscription monies will be returned without interest or deduction. The closing of this offering cannot occur sooner than five days from the date of mailing of the final Exchange Offering Prospectus to prospective investors and must occur within 90 days of the date that a receipt for the final Exchange Offering Prospectus is issued by the Alberta Securities Commission Agency, or such other time as may be authorized by the Chief of Securities Administration of the Alberta Securities Commission Agency and The Alberta Stock Exchange. The closing of this offering shall not occur until five days after the mailing of the Exchange Offering Prospectus.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without prior notice. It is expected that definitive share certificates evidencing the securities offered hereunder will be available for delivery following the closing of this offering.

ALLOCATION OF PURCHASE PRICE

The price of each Unit is allocated on a reasonable basis between the Common Share and the Warrant that form the Unit. Revenue Canada, Taxation has taken the position that the allocation must be the same for the Corporation and the subscriber. The Corporation will allocate \$0.25 of the Unit Offering Price to the Common Share and \$0.00 of the Unit Offering Price to the Warrant. This allocation is considered by the Corporation to be reasonable, however, such allocation will not be binding on Revenue Canada, Taxation.

DESCRIPTION OF SHARE CAPITAL

Authorized Capital

The authorized share capital of the Corporation consists of an unlimited number of Common Shares (the "Common Shares"), without nominal or par value and an unlimited number of Preferred Shares, issuable in series ("Preferred Shares"). As at December 22, 1994 there were 2,000,100 Common Shares issued and outstanding. As at the date hereof no Preferred Shares had been issued. See "Capitalization".

Common Shares

The holders of Common Shares are entitled to receive notice of and to attend any meeting of the shareholders of the Corporation and are entitled to one vote for each Common Share held

(except at meetings at which only the holders of another class of shares are entitled to vote). The holders of Common Shares are entitled to receive dividends, on a pro rata basis, if, as and when declared by the board of directors of the Corporation and, subject to prior satisfaction of all preferential rights, to participate rateably in the net assets of the Corporation in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in event of some other distribution of assets of the Corporation among shareholders for the purpose of winding-up its assets.

Preferred Shares

The Corporation's Articles of Incorporation provide that the directors of the Corporation may from time to time and at any time, issue the Preferred Shares in one or more series, each series to consist of such numbers of shares as may before issuance thereof, be determined by the Directors.

The directors of the Corporation may, by resolution (subject as hereinafter provided) from time to time, fix before issuance, the designation, rights, restrictions, conditions and limitations to attach to the Preferred Shares of each series, including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, the redemption price and terms and conditions of redemption, if any, voting rights and conversion rights (if any) and any sinking fund, purchase fund or other provisions attaching to the Preferred Shares of such series; and provided however, that no shares of any series shall be issued until the Directors have filed Articles of Amendment with the Registrar of Corporations, Province of Alberta, or such designated person in any other jurisdiction in which the Corporation may be continued.

The Preferred Shares shall be entitled to preference over the Common Shares of the Corporation and any other shares of the Corporation ranking junior to the Preferred Shares with respect to the payment of dividends, if any, and may also be given such other preferences over the Common Shares of the Corporation and any other shares of the Corporation ranking junior to the Preferred Shares as may be fixed by the Resolution of the Directors of the Corporation as to the respective series authorized to be issued.

The Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to priority and payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.

The holders of the Preferred Shares shall not, as such, be entitled as of right to subscribe for or purchase or receive any part of any issue of shares or bonds, debentures or other securities of the Corporation now or hereafter authorized.

No class of shares may be created ranking as to capital or dividends prior to or on a parity with the Preferred Shares without the approval of the holders of the Preferred Shares nor shall any additional Preferred Shares be created without such approval.

Warrants

The Warrants will be issued pursuant to a warrant trust indenture to be dated as of the date of the closing of this offering (the "Warrant Indenture"). The Corporation will appoint the principal office of Montreal Trust Company of Canada, in Calgary, Alberta, as the Warrant Agent at which the Warrants may be surrendered for exercise or exchange. No fractional Warrants will be issued and holders of Warrants will not be entitled to any cash payment or other compensation on the exercise thereof as would otherwise result in entitlement to a fractional Warrant. Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants.

Each Warrant will entitle the holder to purchase one (1) Common Share of the Corporation at an exercise price of \$0.30 per Common Share, exercisable at any time during the twelve (12) month period following the closing of this offering.

The Warrants will contain provisions to the effect that in the event of any subdivision, consolidation, change or reclassification of the Common Shares or in the event of the consolidation, amalgamation or merger of the Corporation with another corporation, a proportionate adjustment or change will be made in the number and kind of securities issuable on the exercise of the Warrants.

The Warrants will also provide that the exercise price per Common Share is subject to adjustment in certain events, including:

- (a) the subdivision of the outstanding Common Shares into a greater number of common shares;
- (b) the consolidation of the outstanding Common Shares into a lesser number of Common Shares;
- (c) any distribution payable in Common Shares to the holders of all or substantially all of the outstanding Common Shares; or
- (d) issuance or distribution to the holders of all or substantially all the outstanding Common Shares (i) securities of the Corporation including rights, options or warrants to acquire Common Shares or securities convertible into or exchangeable for Common Shares or property or assets and including evidences of its indebtedness; or (ii) property or other assets.

No adjustment in the exercise price will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1 %.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice of certain stated events at least 14 days prior to the record date or the effective date, as the case may be, of such event.

To the extent that the holder of a Warrant would otherwise be entitled to purchase a fraction of a Common Share, such right may be exercised only in combination with other rights which in the aggregate entitle the holder to purchase a whole number of Common Shares. No adjustments as to dividends will be made upon any exercise of Warrants. Holders of Warrants do not have any voting or pre-emptive rights or any other rights as shareholders of the Corporation.

PRIOR SALES

The following table sets forth all Common Shares that have been issued by the Corporation since its incorporation.

Date	Number and Nature of Shares	Issue Price per Security	Gross Aggregate Consideration	Nature of Consideration
January 28, 1994	100 Common Shares	\$1.00	\$100.00	Cash
July 4, 1994	2,000,000 Common Shares	\$0.05	\$100,000.00	Cash

MANAGEMENT AND DIRECTORS

Dallas E. Hawkins, Calgary, Alberta, President, Chief Executive Officer, Chief Financial Officer and Director of the Corporation, was Chairman of HydroMet Environmental Recovery Ltd. (formerly Drake Environmental Recovery Ltd. and Drake Petroleum Ltd.) from 1993 to August 1994; prior thereto President of HydroMet Environmental Recovery Ltd. since June, 1987.

Mr. Hawkins directly owns 200,100 Common Shares of the Corporation and currently devotes substantially all his time to the affairs of the Corporation. Mr. Hawkins has stock options to purchase 75,000 Common Shares of the Corporation, at \$0.25 per Common Share on or before April 12, 2000. See "Principal Holder of Securities".

Michael J. Perkins, Calgary, Alberta, Secretary and a Director of the Corporation, has been a partner with Ogilvie and Company, Barristers and Solicitors, since May, 1991. Prior thereto Mr. Perkins was a partner with Burstall Ward, Barristers and Solicitors. He obtained a Bachelor of Arts degree from University of Calgary in 1976 and his LLB from the University of Alberta

in 1980, and was subsequently admitted to the Bar of the Province of Alberta in 1981. Mr. Perkins currently practices law in the areas of natural resources, corporate and commercial and securities law. Mr. Perkins is also an officer and director of several other public corporations trading on The Alberta Stock Exchange. Mr. Perkins intends to devote less than 5 % of his time to the affairs of the Corporation.

Mr. Perkins has stock options to purchase 25,000 Common Shares of the Corporation, at \$0.25 per Common Share on or before April 12, 2000.

Brian G. McCombe, Calgary, Alberta, Director of the Corporation, obtained his Bachelor of Arts in 1956 and his Bachelor of Laws in 1961 from the University of Manitoba. He was admitted to the bar of the Province of Alberta and the Province of Manitoba in 1963. Mr. McCombe practised law in the areas of natural resources, corporate and commercial, and securities law, with emphasis on financing and acquisitions until his retirement from practice in 1987. Subsequent to that time, he has served as president of Megin Management Ltd., a private investment and oil and gas company.

Mr. McCombe directly owns 200,000 Common Shares of the Corporation and currently devotes less than 5 % of his time to the affairs of the Corporation. Mr. McCombe has stock options to purchase 25,000 Common Shares of the Corporation, at \$0.25 per Common Share on or before April 12, 2000.

Harold E. Anderson, Calgary, Alberta, Director of the Corporation, has been providing financial consulting services to corporations in the City of Calgary since his retirement from the Royal Bank of Canada in 1992. During Mr. Anderson's thirty-seven years with the Royal Bank of Canada, he assumed a number of senior positions, and the five years prior to his retirement, he managed such bank's Oil and Gas Banking Centre.

Mr. Anderson intends to devote less than 5 % of his time to the affairs of the Corporation. Mr. Anderson has stock options to purchase 25,000 Common Shares of the Corporation, at \$0.25 per Common Share on or before April 12, 2000.

Sandra MacWhirter, Calgary, Alberta, Assistant Secretary of the Corporation, obtained her Bachelor of Arts Degree from Carleton University in 1972. Prior to taking this position with the Corporation, Ms. MacWhirter worked as an administrative and executive secretary for four years with a junior oil and gas company and an environmental firm in Calgary. Prior to that, she was involved in direct sales, civil service and the construction industry in Calgary, Yellowknife, Toronto and Ottawa. She is an Associate Member of the Calgary Exhibition and Stampede as well as having been extensively involved in many volunteer organizations.

Ms. MacWhirter currently devotes substantially all her time to the affairs of the Corporation, and has stock options to purchase 25,000 Common Shares of the Corporation at \$0.25 per Common Share on or before April 12, 2000.

PRINCIPAL HOLDERS OF SECURITIES

To the knowledge of the directors of the Corporation as of the date hereof, there were no shareholders who owned of record or beneficially or exercised control or direction over, directly or indirectly, more than 10% of the Common Shares except as described in the following table:

Name and Municipality of Owner	Number of Common Shares	% of Class Prior to Closing	% of Class After Minimum Offering ⁽¹⁾	% of Class after Maximum Offering ⁽¹⁾
Dallas E. Hawkins Calgary, Alberta	200,100	10.01%	4.4%	3.8%
Stephen H.H. Kwan Hong Kong	400,000	20%	8.9%	7.7%

Note:

- (1) Prior to exercise of any Warrants or outstanding stock options. See "Stock Options".

PROMOTERS

Dallas E. Hawkins may be considered to be the promoter of the Corporation, in that he has taken the initiative in organizing the business affairs of the Corporation. Mr. Hawkins owns 200,100 of the issued Common Shares of the Corporation and has a stock option to purchase 75,000 Common Shares of the Corporation. See "Stock Options" and "Principal Holders of Securities".

STOCK OPTIONS

On July 4, 1994, the sole shareholder of the Corporation approved a Stock Option Plan (the "Plan") for the directors, officers, full-time employees and consultants of the Corporation. Under the terms of the Plan, options to acquire Common Shares may be granted by the directors of the Corporation, subject to the restriction that the aggregate number of Common Shares issuable upon the exercise of options granted under the Plan shall not exceed the maximum number of shares permitted by any stock exchange on which the Common Shares are listed. The exercise price associated with any options granted under the Plan shall be determined by the directors in compliance with the requirements of The Alberta Stock Exchange. The options vest on a date to be set by the directors and expire at a time to be set by the directors, provided that any outstanding options will expire one year following the date the holder ceases to be a director or hold an office of the Corporation by reason of death or on the 90th day following the date that the holder ceases to be an officer, director, employee or consultant of the Corporation for any reasons other than death. Options granted under the Plan are non-assignable. Outstanding options granted under the Plan may be adjusted in certain events, as to exercise price and

number of Common Shares, to prevent dilution. On April 12, 1995 the Corporation granted options to acquire 275,000 Common Shares, at an exercise price of \$0.25 per share, pursuant to the Plan.

The following options have been granted to the directors, officers, employees and consultants of the Corporation and are outstanding as at the date hereof.

Name	Number of Common Shares Under Option	Date of Grant	Exercise Price Per Common Share	Expiry Date
Dallas E. Hawkins	75,000	April 12, 1995	\$0.25	April 12, 2000
Sandra MacWhirter	25,000	April 12, 1995	\$0.25	April 12, 2000
Stephen H.H. Kwan	50,000	April 12, 1995	\$0.25	April 12, 2000
Garry J. Davis	50,000	April 12, 1995	\$0.25	April 12, 2000
Harold E. Anderson	25,000	April 12, 1995	\$0.25	April 12, 2000
Michael J. Perkins	25,000	April 12, 1995	\$0.25	April 12, 2000
Brian G. McCombe	25,000	April 12, 1995	\$0.25	April 12, 2000

EXECUTIVE REMUNERATION

It is anticipated that no compensation other than the stock options (see "Stock Options") and additional stock options that may be granted pursuant to the Plan (see "Stock Options") is intended to be paid to the directors, in their capacity as directors, in the current and immediately succeeding fiscal year.

The officers, directors, key employees and consultants of the Corporation have been granted stock options to purchase an aggregate of 275,000 Common Shares and may be granted additional options under the Plan in the current and immediately succeeding fiscal years. See "Stock Options".

ESCROW

Pursuant to an agreement dated as of the date of the exchange offering prospectus, among the Corporation, Montreal Trust Company of Canada, Dallas E. Hawkins, Stephen H.H. Kwan, Garry J. Davis, Brian G. McCombe, Louis A. Bibler, Montana Powder & Supply Co., Bridgebank Capital (Alberta) Inc., Alderprise Inc. and Petromanagement Service Pte. Ltd. (the "Escrow Agreement"), an aggregate of 2,000,100 Common Shares (the "Escrowed Shares") owned by these shareholders will be held in escrow by Montreal Trust Company of Canada.

The Common Shares held in escrow will be released, after obtaining the prior consent of the Director of Securities Analysis of the Alberta Securities Commission Agency, as to 15 % upon satisfactory completion of the distribution of the Common Shares hereunder, as to 25 % once the work program disclosed in the exchange offering prospectus is completed and as to 15 % at the end of the second, third, fourth and fifth year from the date of this exchange offering prospectus.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of the current directors, executive officers and shareholders who beneficially own, directly or indirectly, more than 10% of the outstanding common shares or any known associate or affiliates of such persons, in any transaction within the last 24 months or any proposed transaction which has materially affected the Corporation except for the stock options granted by the Corporation to Mr. Dallas E. Hawkins and Mr. Stephen H.H. Kwan. (See "Stock Options".)

CAPITALIZATION

The following table sets forth the capitalization of the Corporation, before and after giving effect to this offering.

Capital	Authorized	Outstanding as at December 31, 1994 (audited)	Outstanding after giving effect to Minimum Offering	Outstanding after giving effect to this Maximum Offering
Common Shares	Unlimited	2,000,100 (\$100,100)	4,500,100 (\$602,600)	5,200,100 (\$760,100)
Preferred Shares	Unlimited	--	--	--

Notes:

- (1) Based on the Offering Price of \$0.25 per Unit under this offering.
- (2) The dollar values are reduced to reflect the costs of this offering.
- (3) Does not take into account 275,000 Common Shares issuable pursuant to outstanding options granted to directors and officers and consultants and 250,000 Common Shares if the minimum offering is achieved and up to 320,000 Common Shares if the maximum offering is achieved issuable pursuant to Agent's Options to be granted to Rogers & Partners Securities Inc., the Common Shares issuable on the exercise of the Warrants, pursuant to this offering and the 85,000 Common Shares granted to Nu-Sky.

DILUTION

The net tangible value of the assets of the Corporation per Common Share, as at December 31, 1994 after giving effect to the acquisition of the Assets acquired in the Acquisition and this offering, and without giving effect to the issuance of Common Shares upon exercise of the outstanding Warrants, the exercise of the Agent's Option and directors', employees' and consultants stock options and using as the value of the Assets those values attributed to the oil and gas assets pursuant to independent reports, using escalated pricing assumptions and a discount rate of 15 %, is approximately \$0.174 per Common Share if the maximum is raised and \$0.166 per Common Share if the minimum is raised. Thus, the Offering Price of each Common Share, exceeds the net tangible value per Common Share by \$0.076 per Common Share if the maximum is raised and \$0.084 per Common Share if the minimum is raised, and a purchaser of Common Shares will experience an immediate dilution of approximately 33.6% if the minimum is achieved and 30.4% if the maximum is achieved. The following table sets out the dilution calculation.

Dilution Calculation

	If Minimum Offering is Achieved	If Maximum Offering is Achieved
Offering Price	\$0.25	\$0.25
Net value of assets as at December 31, 1994	\$110,880	\$110,880
Value of Assets according to independent report (using 15 % DCF and escalated pricing)	\$559,443	\$559,443
Offering Proceeds - net amount less amount payable to acquire 50 % of the Assets	\$502,500 \$425,000	\$660,000 \$425,000
Net Tangible Assets after offering and Acquisition	\$747,823	\$905,323
Net Tangible Value/Share	\$0.166	\$0.174
Dilution	\$0.084	\$0.076
Dilution, as a percentage	33.6%	30.4%

DIVIDEND RECORD

Since incorporation no dividends have been paid on any of the shares of the Corporation. It is not expected that dividends will be paid in the foreseeable future.

RISK FACTORS

The purchase of any Units offered hereby must be considered speculative due to the nature of the Corporation's business and its relatively early stage of development.

The oil and gas industry is intensely competitive and the Corporation will compete with a substantial number of other companies that have greater resources. Many of such companies not only explore for and produce oil and natural gas but also carry on refining operations and market oil and natural gas and other products on an international basis. There is also competition between the oil and gas industry and other industries supplying energy and fuel to industrial, commercial and individual customers.

Oil and gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that oil or natural gas in commercial quantities will be discovered by the Corporation. The marketability of oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. These factors include market fluctuation, the proximity and capacity of oil and gas transmission facilities and processing equipment and government regulation, including regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and natural gas and environmental protection. The exact effect of these factors cannot be accurately predicted.

The recovery and reserve estimates on the properties being acquired are estimates only. The actual reserves may be greater or less than those calculated.

It should not be assumed that the present value of future net cash flow is representative of the fair market value of the reserves. Investors are cautioned that the present worth of estimated future net cash flow is based on escalating price and cost assumptions, and there is no assurance that such price and cost escalations will be attained and variances could be material.

Hazards such as unusual or unexpected geological formations, high pressures or other conditions are involved in drilling and operating wells. The Corporation may become subject to liability for pollution, blow-outs or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. The payment of such liabilities would reduce the funds available to the Corporation or could result in the total loss of the Corporation's property.

Oil and natural gas prices have been subject to significant fluctuations which will have a significant impact on the revenue of the Corporation. Because the world price of oil is quoted and trades on the basis of U.S. dollars per barrel, the Corporation's revenues will also be affected by fluctuations in currency exchange rates.

The Corporation has not purchased any "key-man" insurance with respect to any of its directors, officers or key employees as at the date hereof.

CONFLICTS OF INTEREST

Some of the directors and officers of the Corporation participate and will continue to participate in the petroleum and natural gas business on their own behalf and on behalf of other corporations and situations may arise where such directors and officers will be in direct competition with the Corporation. Any such conflicts will be subject to and governed by the law applicable to directors and officers conflict of interest, including the procedures prescribed by the Business Corporations Act (Alberta).

LEGAL PROCEEDINGS

The Corporation is not currently party to any legal proceedings, nor are any legal proceedings currently being contemplated by the Corporation. Management of the Corporation is currently not aware of any legal proceedings contemplated against the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Auditor of the Corporation is Collins Barrow, Chartered Accountants, 1400, 777 - 8th Avenue S.W., Alberta, T2P 3R5.

Montreal Trust Company of Canada, through its principal office at 411 - 8th Avenue S.W., Calgary, Alberta, T2P 1E7, is the transfer agent and registrar for the Common Shares of the Corporation.

ACCOMPANYING DOCUMENTS

The following documents and material contracts have been filed with The Alberta Stock Exchange and the Alberta Securities Commission Agency and are available for inspection at their offices and at the office of the Corporation during the period of distribution and for 30 days thereafter.

1. The report prepared by McDaniel dated effective September 1, 1994, Escalating Price Assumptions. See "Acquisition of Oil and Gas Assets";
2. The report prepared by McDaniel dated effective September 1, 1994, Constant Price Assumptions. See "Acquisition of Oil and Gas Assets";
3. The report prepared by McDaniel dated April 25, 1995, re-calculating the McDaniel Reports dated September 1, 1994. See "Acquisition of Oil and Gas Assets";
4. The report prepared by McDaniel dated June 2, 1995. See "Acquisition of Oil and Gas Assets";

5. Agency Agreement dated June 20, 1995, between the Corporation and Rogers & Partners Securities Inc. See "Details of the Offering";
6. Stock Option Agreements dated April 12, 1995, between the Corporation and Dallas E. Hawkins, Sandra MacWhirter, Stephen H.H. Kwan, Garry J. Davis, Harold E. Anderson, Michael J. Perkins and Brian G. McCombe;
7. Warrant Indenture dated June 20, 1995, between the Corporation and Montreal Trust Company of Canada. See "Description of Share Capital";
8. Option Agreement dated May 26, 1995, between the Corporation and Magrath Energy Corporation. See "Acquisition of Oil and Gas Assets" and "Use of Proceeds";
9. Letter Agreement dated April 13, 1995, between the Corporation and Nu-Sky Energy Inc. See "Acquisition of Oil and Gas Assets" and "Use of Proceeds".
10. Registrar and Transfer Agency Agreement dated May 17, 1995, between the Corporation and Montreal Trust Company of Canada;
11. Credit Facility Agreement dated June 12, 1995, between the Corporation and Canadian Western Bank. See "Use of Proceeds"; and
12. Escrow Agreement dated June 20, 1995. See "Escrow".

PURCHASER'S STATUTORY RIGHTS

The Securities Act (Alberta) (the "Act") provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt of a prospectus and any amendment. The Act further provides the purchaser with remedies for rescission or damages if the prospectus and any amendment contains a misrepresentation, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the Act. In the case of an action for rescission, such time limit is 180 days from the day of the transaction that gave rise to the cause of action. In the case of an action for damages, such time limit is the earlier of 180 days from the day that the plaintiff first had knowledge of the facts giving rise to the cause of action or one year from the date of the transactions that gave rise to the cause of action. Reference is made to the Act for the complete description of such rights.

AUDITORS' REPORT

To the Directors
Drake Pacific Enterprises Ltd.

We have audited the balance sheet of Drake Pacific Enterprises Ltd. as at December 31, 1994 and the statements of loss and deficit and cash flow for the period from commencement of operations, March 21, 1994 to December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and the results of its operations and cash flow for the period then ended in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Calgary, Alberta
May 23, 1995
(except for Note 9 which
is dated June 20, 1995)

DRAKE PACIFIC ENTERPRISES LTD.
BALANCE SHEET
DECEMBER 31, 1994

Assets

Current assets

Cash	\$ 11,881
Accounts receivable	33,479
Prepaid expenses	5,064

50,424

Capital assets (note 4) 14,481

Deferred public offering costs (note 5) 45,975

\$ 110,880

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 39,378
Due to a director	25,000

64,378

Shareholders' Equity

Share capital (note 6) 100,100

Deficit (53,598)

46,502

\$ 110,880

Approved on behalf of the Board,

"signed" Dallas E. Hawkins
, Director

"signed" Harold E. Anderson
, Director

DRAKE PACIFIC ENTERPRISES LTD.
STATEMENT OF LOSS AND DEFICIT
PERIOD FROM COMMENCEMENT OF OPERATIONS,
MARCH 21, 1994 TO DECEMBER 31, 1994

Revenue	
Interest income	\$ 713
<hr/>	
Expenses	
General and administrative	54,311
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Net loss, being deficit, end of period	\$ 53,598
<hr/>	

Loss per share (note 8)

DRAKE PACIFIC ENTERPRISES LTD.
STATEMENT OF CASH FLOW
PERIOD FROM COMMENCEMENT OF OPERATIONS,
MARCH 21, 1994 TO DECEMBER 31, 1994

Operating activities

Net loss	\$ (53,598)
Net change in non-cash working capital balances	(5,962)

(59,560)

Financing activities

Issuance of share capital	100,100
Advance from a director	25,000
Deferred public offering costs	(45,975)
Net change in non-cash working capital balances	6,797

85,922

Investing activities

Acquisition of capital assets	(14,481)
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Net cash inflow, being cash, end of period	\$ 11,881
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DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1994

1. Incorporation

The Corporation was incorporated under the Business Corporations Act (Alberta) on January 28, 1994.

2. Nature of operations

The Corporation commenced operations on March 21, 1994 with the intent to secure equity financing which it proposes to use to identify and evaluate potential oil and natural gas or mineral exploration and development prospects. The initial resource base focus is Western Canada, however, the Corporation intends to diversify its focus internationally to Mexico, China and other Pacific Rim countries, subject to obtaining appropriate financing.

3. Depreciation policy

Depreciation will be recorded using the declining balance method at the following annual rates:

Computer	30%
Furniture and fixtures	20%
Office equipment	20%

4. Capital assets

	Cost	Accumulated Depreciation	Net
Computer	\$ 3,756	\$ -	\$ 3,756
Furniture and fixtures	5,259	-	5,259
Office equipment	5,466	-	5,466
	\$ 14,481	\$ -	\$ 14,481

5. Deferred public offering costs

Deferred public offering costs will be charged to share capital upon the completion of the public offering (note 9[a]).

6. Share capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of non-voting preferred shares, issuable in series

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1994

(b) Issued

2,000,100 common shares for cash	<u>\$ 100,100</u>
----------------------------------	-------------------

- (c) An aggregate of 2,000,100 common shares are to be held in escrow and will be released, after obtaining the prior consent of the Director of Securities Analysis of the Alberta Securities Commission Agency, as to 15% upon satisfactory completion of the public offering (note 9[a]), as to 25% once the work program disclosed in the exchange offering prospectus is completed and as to 15% at the end of the second, third, fourth and fifth year from the date of the exchange offering prospectus.

7. Lease commitment

The Corporation is committed to annual lease payments in the amount of \$12,362 until expiry July 31, 1996.

8. Loss per share

Loss per share information has not been provided as it is not considered meaningful at this time.

9. Subsequent events

- (a) Pursuant to an Agency Agreement dated June 20, 1995 between the Corporation and Rogers and Partners Securities Inc. (the "Agent"), the Agent has agreed to sell, on a best efforts basis, a minimum of 2,500,000 Units and a maximum of 3,200,000 Units of the Corporation at a price of \$0.25 per Unit. Each Unit consists of one common share with a stated value of \$0.25 and one share purchase warrant ("Warrant"). Each Warrant will entitle the holder to acquire one common share for \$0.30 at any time during the twelve month period following the closing of this offering. An agency fee of \$10,000 and a 10% commission will be paid to the Agent. In addition, the Agent will be granted a non-transferrable option to purchase a number of common shares equal to 10% of the Units subscribed, if the minimum offering is achieved, for \$0.25 per common share at any time during the eighteen month period following the closing of this offering. Issuance costs are estimated to be \$50,000.
- (b) Pursuant to an Option Agreement effective May 26, 1995, the Corporation acquired an option (the "Option") to purchase a 50% interest in certain petroleum and natural gas assets and natural gas processing facilities (the "Assets") from Magrath Energy Corporation. It is intended that the Corporation will exercise the Option and the acquisition (the "Acquisition") of the Assets will close concurrently with the public offering (note 9[a]), with an effective date of January 1, 1995 (the "Effective Date"). The purchase price to be paid at the closing of the acquisition of the Assets is \$425,000, which shall be adjusted as of the Effective Date.

DRAKE PACIFIC ENTERPRISES LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1994

- (c) Pursuant to a Letter Agreement dated April 13, 1995 between the Corporation and Nu-Sky Energy Inc. ("Nu-Sky"), the Corporation has agreed to pay Nu-Sky \$10,625 and upon closing of the public offering (note 9[a]) either grant Nu-Sky 85,000 common shares of the Corporation or, alternatively, a second cash payment of \$10,625 as a finders fee. Under the terms of the Letter Agreement, Nu-Sky also has an option for 14 days if the Corporation does not exercise its option (note 9[b]), to take the place of the Corporation and exercise the option to purchase 50% of the interest to be purchased by the Corporation pursuant to the Acquisition (note 9[b]).
- (d) On April 12, 1995, the Corporation entered into stock option agreements with directors, officers, employees and consultants of the Corporation under which 275,000 common shares have been reserved for issuance. The options may be exercised at a price of \$0.25 per share until expiry on April 12, 2000.
- (e) Pursuant to a Credit Facility Agreement dated June 12, 1995 between the Corporation and Canadian Western Bank, the Corporation has arranged for a demand non-revolving credit facility for up to \$200,000.

Dated: June 20, 1995

CERTIFICATE OF THE CORPORATION

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered herein as required in an Exchange Offering Prospectus.

Dallas E. Hawkins (Signed)
CHIEF EXECUTIVE OFFICER

Dallas E. Hawkins (Signed)
CHIEF FINANCIAL OFFICER

ON BEHALF OF THE BOARD

Brian G. McCombe (Signed)
DIRECTOR

Harold E. Anderson (Signed)
DIRECTOR

ON BEHALF OF THE PROMOTER

Dallas E. Hawkins (Signed)

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered hereby as required in an Exchange Offering Prospectus.

Rogers & Partners Securities Inc.

J. David D. McKeown (Signed)

The following includes the name of every person having an interest either directly or indirectly, to the extent of not less than 5% in the capital of Rogers & Partners Securities Inc.;

J. Victor Rogers
J. David D. McKeown

AR 71

University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2G6

1995



AMENDMENT DATED OCTOBER 17, 1995, TO AN
EXCHANGE OFFERING PROSPECTUS DATED JUNE 20, 1995 AS
AMENDED AUGUST 3, 1995 AND SEPTEMBER 15, 1995

The exchange offering prospectus, as hereby amended, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Neither The Alberta Stock Exchange, Alberta Securities Commission nor any other securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered by the exchange offering prospectus of Drake Pacific Enterprises Ltd. dated June 20, 1995, as amended August 3, 1995, September 15, 1995 and as hereby amended, and any representation to the contrary is an offence. This exchange offering prospectus, as hereby amended, constitutes a public offering of these securities only in the Province of Alberta. Prospective investors may wish to obtain further information from the documents filed with The Alberta Stock Exchange and the Alberta Securities Commission Agency and listed herein or from the Corporation.

DRAKE PACIFIC ENTERPRISES LTD.

Defined Terms

Terms used in this Amendment have the same meaning as ascribed thereto in the exchange offering prospectus dated June 20, 1995, which is herein referred to as "the prospectus".

Prior Purchases

The statutory rights of a purchaser are extended from the date that this Amendment is received or deemed to be received by the purchaser. See "Purchaser's Statutory Rights" in the prospectus.

Amendment to the Prospectus

1. The second paragraph on page two of the prospectus is amended to read as follows:

"THIS IS A FIXED PRICE OFFERING BEING MADE THROUGH THE FACILITIES OF THE ALBERTA STOCK EXCHANGE. The minimum offering must be raised and an Offering Day must occur within 150 days of the issuance of a receipt for the filing of the final Prospectus or such other time as may be authorized by the Chief of Securities Administration of the Alberta Securities Commission Agency and by The Alberta Stock Exchange and agreed to by the Agent and the Corporation. Rogers & Partners Securities Inc. is acting as Agent to the Corporation on a best efforts basis. The Units are being offered subject to the conditions contained in the Agency Agreement and subject to the approval of Ogilvie and Company, Barristers and Solicitors, Calgary, Alberta, of such legal matters on behalf of the Corporation for which approval is specifically sought by the Corporation and by Parlee

McLaws, Barristers and Solicitors, Calgary, Alberta, of such legal matters on behalf of the Agent."

2. The seventh paragraph under the heading "Details of the Offering" on page 15 of the prospectus is amended to read as follows:

"The minimum offering is 2,500,000 Units. If the minimum offering is not obtained on the closing of the offering, this offering will be cancelled and subscription monies will be returned without interest or deduction. The closing of this offering cannot occur sooner than five days from the date of mailing of the final Exchange Offering Prospectus to prospective investors and must occur within 150 days of the date that a receipt for the final Exchange Offering Prospectus is issued by the Alberta Securities Commission Agency, or such other time as may be authorized by the Chief of Securities Administration of the Alberta Securities Commission Agency and The Alberta Stock Exchange. The closing of this offering shall not occur until five days after the mailing of the Exchange Offering Prospectus."

3. The prospectus is amended by adding pages 35 to 44 being the audited financial statements of the Corporation for the eight (8) month period ending August 31, 1995.

(This space left blank intentionally.)



1400 First Alberta Place
777-8th Avenue S.W.
Calgary, Canada T2P 3R5
Telephone: (403) 298-1500
Fax: (403) 237-0330

AUDITORS' REPORT

To the Directors
Drake Pacific Enterprises Ltd.

We have audited the balance sheet of Drake Pacific Enterprises Ltd. as at December 31, 1994 and the statements of loss and deficit and cash flow for the period from commencement of operations, March 21, 1994 to December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and the results of its operations and cash flow for the period then ended in accordance with generally accepted accounting principles.

Collins Barrow
CHARTERED ACCOUNTANTS

Calgary, Alberta
May 23, 1995
(except for Notes 10(a) (b), (c),
(d) and (e) which are dated
June 20, 1995 and Notes 10(f),
(g), (h) and (i) which are dated
October 17, 1995)

Founding Member of


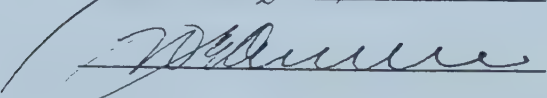
**Moore
Rowland**
INTERNATIONAL

Represented in 60 Countries

DRAKE PACIFIC ENTERPRISES LTD. **BALANCE SHEETS**

	August 31, 1995 (unaudited)	December 31, 1994
Assets		
Current assets		
Cash	\$ 12,406	\$ 11,881
Accounts receivable	16,127	33,479
Prepaid expenses	5,807	5,064
	34,340	50,424
Capital assets (note 4)	421,717	14,481
Deferred public offering costs (note 5)	78,280	45,975
	\$ 534,337	\$ 110,880
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 68,558	\$ 39,378
Loan payable	125,000	-
Due to directors and shareholders	135,008	25,000
Current portion of long-term debt	96,000	-
	424,566	64,378
Long-term debt (note 6)	104,000	-
Shareholders' Equity		
Share capital (note 7)	100,100	100,100
Deficit	(94,329)	(53,598)
	5,771	46,502
	\$ 534,337	\$ 110,880

Approved by the Board,

, Director , Dallas E. Hawkins
, Director , Harold E. Anderson

DRAKE PACIFIC ENTERPRISES LTD.

STATEMENTS OF LOSS AND DEFICIT

	Eight months ended August 31, 1995 (unaudited)	Period from commencement of operations, March 21 to December 31, 1994
Revenue		
Oil and gas sales, net of royalties	\$ 9,748	\$ -
Interest and other	150	713
	9,898	713
Expenses		
Operating	3,095	-
General and administrative	37,784	54,311
Depletion and depreciation	9,750	-
	50,629	54,311
Net loss	40,731	53,598
Deficit, beginning of period	53,598	-
Deficit, end of period	\$ 94,329	\$ 53,598
Loss per share	\$ 0.02	\$ 0.05

DRAKE PACIFIC ENTERPRISES LTD.

STATEMENTS OF CASH FLOW

	Eight months ended August 31, 1995 (unaudited)	Period from commencement of operations, March 21 to December 31, 1994
Operating activities		
Net loss	\$ (40,731)	\$ (53,598)
Add item not requiring cash		
Depletion and depreciation	9,750	-
	(30,981)	(53,598)
Net change in non-cash working capital balances	(4,089)	(5,962)
	(35,070)	(59,560)
Financing activities		
Advance of loan payable	125,000	-
Advances from directors and shareholders	110,008	25,000
Proceeds on long-term debt	200,000	-
Issuance of share capital	-	100,100
Deferred public offering costs	(32,305)	(45,975)
Net change in non-cash working capital balances	58,270	6,797
	460,973	85,922
Investing activities		
Acquisition of capital assets	(416,986)	(14,481)
Net change in non-cash working capital balances	(8,392)	-
	(425,378)	(14,481)
Cash inflow	525	11,881
Cash, beginning of period	11,881	-
Cash, end of period	\$ 12,406	\$ 11,881

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

1. Incorporation

The Corporation was incorporated under the Business Corporations Act (Alberta) on January 28, 1994.

2. Nature of operations

The Corporation commenced operations on March 21, 1994 with the intent to focus on the generation of cash flow through exploration and development of prospects and acquisition of natural resources. The initial resource base focus is Western Canada, however, the Corporation intends to diversify its focus internationally to Mexico, China and other Pacific Rim countries, subject to obtaining appropriate financing.

3. Significant accounting policies

(a) Exploration and development costs

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based upon proven oil and gas reserves as determined by independent engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

In applying the full cost method, the Corporation performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes ("cost ceiling"). Costs to acquire significant proved reserves are excluded from the ceiling test for a period of 24 months following acquisition, provided any excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount (note 4).

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

(b) Joint venture accounting

Substantially all of the exploration and production activities of the Corporation conducted jointly with others and accordingly these accounts reflect only the Corporation's proportionate interest in these activities.

(c) Depreciation

Depreciation of other equipment is recorded using the declining balance method rates of 20% to 30% per annum.

(d) Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the period. The exercise of options would not be materially dilutive.

4. Capital assets

	August 31, 1995	December 31, 1994
Petroleum and natural gas properties including exploration and development thereon	\$ 335,714	\$ -
Lease and well equipment	81,272	-
Other equipment	14,481	14,481
	431,467	14,481
Accumulated depletion and depreciation	9,750	-
Net book value	\$ 421,717	\$ 14,481

As described in note 10(f), the Corporation acquired oil and gas property and equipment from Magrath Energy Corporation. The "cost ceiling" (based on prices in effect at August 31, 1995 and calculated as described in [note 3(a)]) of the oil and gas properties acquired was less than the capitalized cost of those assets by approximately \$72,000. This excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount and as a result, no writedown has been recorded.

Future removal and site restoration costs have been estimated at \$11,250 of which nil (December 31, 1994 - nil) has been charged to current earnings.

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

5. Deferred public offering costs

Deferred public offering costs will be charged to share capital upon the completion of the public offering (note 10[a]).

6. Long-term debt

Long-term debt consists of a demand non-revolving loan bearing interest at a Canadian chartered bank's prime rate plus 1.5% per annum, repayable in monthly payments of \$8,000. The facility is secured by a general security agreement covering all present and after acquired property of the Corporation and a first fixed and floating charge over the assets purchased from Magrath Energy Corporation (note 10[f]).

7. Share capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of non-voting preferred shares, issuable in series

(b) Issued

Common shares

	August 31, 1995		December 31, 1994	
	Number	Stated Value	Number	Stated Value
Balance, beginning of period	2,000,100	\$ 100,100	-	\$ -
For cash	-	-	2,000,100	100,100
Balance, end of period	2,000,100	\$ 100,100	2,000,100	\$ 100,100

- (c) An aggregate of 2,000,100 common shares are to be held in escrow and will be released, after obtaining the prior consent of the Director of Securities Analysis of the Alberta Securities Commission Agency, as to 15% upon satisfactory completion of the public offering (note 10[a]), as to 25% once the work program disclosed in the exchange offering prospectus is completed and as to 15% at the end of the second, third, fourth and fifth year from the date of the exchange offering prospectus.

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

8. Lease commitment

The Corporation is committed to annual lease payments in the amount of \$12,362 until expiry July 31, 1996.

9. Related party transactions

During the period, several directors and shareholders advanced \$100,000 (December 31, 1994 - nil) to the Corporation to finance the acquisition of petroleum and natural gas properties from Magrath Energy Corporation (note 10[f]). The amounts are non-interest bearing, unsecured and repayable upon closing of the public offering (note 10[a]).

10. Subsequent events

- (a) Pursuant to an Agency Agreement dated June 20, 1995 between the Corporation and Rogers & Partners Securities Inc. (the "Agent"), the Agent has agreed to sell, on a best efforts basis, a minimum of 2,500,000 Units and a maximum of 3,200,000 Units of the Corporation at a price of \$0.25 per Unit. Each Unit consists of one common share with a stated value of \$0.25 and one share purchase warrant ("Warrant"). Each Warrant will entitle the holder to acquire one common share for \$0.30 at any time during the twelve month period following the closing of this offering. An agency fee of \$10,000 and a 10% commission will be paid to the Agent. In addition, the Agent will be granted a non-transferrable option to purchase a number of common shares equal to 10% of the Units subscribed, if the minimum offering is achieved, for \$0.25 per common share at any time during the eighteen month period following the closing of this offering. Issuance costs are estimated to be \$50,000.
- (b) Pursuant to an Option Agreement effective May 26, 1995, the Corporation acquired an option (the "Option") to purchase a 50% interest in certain petroleum and natural gas assets and natural gas processing facilities (the "Assets") from Magrath Energy Corporation. It is intended that the Corporation will exercise the Option and the acquisition (the "Acquisition") of the Assets will close concurrently with the public offering (note 10[a]), with an effective date of January 1, 1995 (the "Effective Date"). The purchase price to be paid at the closing of the acquisition of the Assets is \$425,000, which shall be adjusted as of the Effective Date.
- (c) Pursuant to a Letter Agreement dated April 13, 1995 between the Corporation and Nu-Sky Energy Inc. ("Nu-Sky"), the Corporation has agreed to pay Nu-Sky as a finder's fee, \$10,625 and upon closing of the public offering (note 10[a]) either remit to Nu-Sky 85,000 common shares at \$0.25 per share of the Corporation or, alternatively, a second and final cash payment of \$10,625. Under the terms of the Letter Agreement, Nu-Sky also has an option, for 14 days, if the Corporation does not exercise its option (note 10[b]), to take the place of the Corporation and exercise the option to purchase 50% of the interest to be purchased by the Corporation pursuant to the Acquisition (note 10[b]).

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

- (d) On April 12, 1995, the Corporation entered into stock option agreements with directors, officers, employees and consultants of the Corporation under which 275,000 common shares have been reserved for issuance. The options may be exercised at a price of \$0.25 per share until expiry on April 12, 2000.
- (e) Pursuant to a Credit Facility Agreement dated June 12, 1995 between the Corporation and Canadian Western Bank, the Corporation has arranged for a demand non-revolving credit facility for up to \$200,000 (note 6).
- (f) On July 31, 1995, the Corporation acquired certain petroleum and natural gas properties and equipment from Magrath Energy Corporation upon the exercise of its Option (note 10[b]).

The purchase price allocation was as follows:

Petroleum and natural gas rights	\$ 325,088
Tangible equipment	81,272
Miscellaneous interests	<u>1</u>
Total purchase price	<u>\$ 406,361</u>

Consideration for the purchase consisted of:

Loan payable	\$ 125,000
Due to directors and shareholders	100,000
Demand non-revolving loan (note 6)	200,000
Less: purchase price adjustment, revenue to closing	<u>(18,639)</u>
Total consideration	<u>\$ 406,361</u>

In connection with the purchase, \$10,625 was paid to Nu-Sky (note 10[c]) April 13, 1995.

The loan payable bears interest at a Canadian chartered bank's prime rate plus 3% per annum and is repayable out of the funds raised by the public offering (note 10[a]).

- (g) On August 3, 1995, the Corporation filed an amendment to the exchange offering prospectus dated June 20, 1995 (note 10[a]) to reflect the exercise of its Option to purchase petroleum and natural gas properties and equipment (note 10[f]).

DRAKE PACIFIC ENTERPRISES LTD.

NOTES TO FINANCIAL STATEMENTS

(Information as at August 31, 1995 and for the eight-month period ended on that date is unaudited)

- (h) On September 15, 1995, the Corporation filed an amendment to the exchange offering prospectus dated June 20, 1995 as amended August 3, 1995 (note 10[g]) to reflect that the minimum offering must be raised and the Offering Day must occur within 120 days of the issuance of a receipt for the filing of the final Prospectus (note 10[a]) or such other time as may be authorized by the securities commission and stock exchange and agreed to by the Agent and the Corporation.
- (i) On October 17, 1995, the Corporation filed an amendment to the exchange offering prospectus dated June 20, 1995 as amended August 3, 1995 and September 15, 1995 (note 10[h]) to reflect that the minimum offering must be raised and the Offering Day must occur within 150 days of the issuance of a receipt for the filing of the final Prospectus (note 10[a]) or such other time as may be authorized by the securities commission and stock exchange and agreed to by the Agent and the Corporation.

Dated: October 17, 1995

CERTIFICATE OF THE CORPORATION

The foregoing, together with the exchange offering prospectus dated June 20, 1995 and amendment dated August 3, 1995 and September 15, 1995, constitutes full, true and plain disclosure of all material facts relating to the securities offered herein as required in an exchange offering prospectus.

"signed"

Dallas E. Hawkins
CHIEF EXECUTIVE OFFICER

"signed"

Dallas E. Hawkins
CHIEF FINANCIAL OFFICER

ON BEHALF OF THE BOARD

"signed"

Brian G. McCombe
DIRECTOR

"signed"

Harold E. Anderson
DIRECTOR

ON BEHALF OF THE PROMOTER

"signed"

Dallas E. Hawkins

Dated: October 17, 1995

To the best of our knowledge, information and belief, the foregoing, together with the exchange offering prospectus dated June 20, 1995 and amendment dated August 3, 1995 and September 15, 1995, constitutes full, true and plain disclosure of all material facts relating to the securities offered hereby as required in an exchange offering prospectus.

ROGERS & PARTNERS SECURITIES INC.

Per: "signed"

J. David D. McKeown

The following includes the name of every person having an interest either directly or indirectly, to the extent of not less than 5% in the capital of Rogers & Partners Securities Inc.:

J. Victor Rogers

J. David D. McKeown

